

# Financial Overview





# Council Workshop Agenda

## January 12, 2012

- Review Fiscal Year 2010-11 Audited Financial Statements
- Update Fiscal Year 2011-12 Current Year Budget Update
- Review Fiscal Year 2012-13 Preliminary Baseline Budget and Five Year Financial Forecast Fiscal Year 2013 to 2017
- Present Fiscal Recovery and Progress Plan
- Feedback on Next Steps



# Council Workshop

## Audited Financial Statements Fiscal Year ending June 30, 2011



# Council Workshop

## Current Year Update Fiscal Year 2011-12



# Fiscal Year 2011-12

## 1<sup>st</sup> Qtr. Update (October 2011)

### First Quarter Financial Report

<b>General Fund Reserve</b>	<b>Amended Budget</b>	<b>Projected (millions)</b>
Reserves - July 1, 2011 (audited)	\$11.9	\$11.9
Revenues & Transfers In	124.9	124.5
Expenditures & Transfers Out	(124.9)	(125.4)
<b>Projected Surplus/Deficit</b>	<b>0</b>	<b>(0.9)</b>
<b>Projected Fund Balance - June 30, 2012</b>	<b>\$11.9</b>	<b>\$11.0</b>
<b>Percentage of Operating Budget</b>	<b>9.6%</b>	<b>8.8%</b>

Note: Since the First Quarter Financial Report the table above has been updated to reflect the final audited numbers for General Fund reserves.



# Revenue Variances

- Revenue variances identified in First Quarter Financial Report:
  - Major revenue sources reflecting minor variances from budget, includes state takeaway of MVLF which is offset in the current year by prior year collections
  - Programmatic revenues, most notably parking citations and staff time reimbursements, projected to come in short by approximately \$400,000
  - Overall projected revenue shortfalls may be mitigated through the receipt of unanticipated revenues



# Expenditure Variances

- Expenditure variances identified in First Quarter Financial Report:
  - Expenditures trending to exceed budget by approximately \$500,000
  - Fire Department constant minimum staffing overtime trending high, primarily due to significantly higher workers compensation claims and administrative leave



# Identify Solutions

- Potential savings which could assist in addressing additional issues:
  - Elections budget savings
  - Unemployment insurance savings
  - Unanticipated one-time revenues





# New budget issues

- Additional issues identified since First Quarter Financial Report:
  - Program revenue shortfalls projected:
    - Police Department
    - Administration Department - Economic Development
  - Police staffing/salary savings not being fully realized
  - Recreation Department staffing (backfill for leave)
  - Elimination of Redevelopment Agency
  - Infrastructure (Bonita/Long Canyon drainage project and CMP repairs)



# Fiscal Year 2011-12

- Second Quarter review underway - staff will present Second Quarter Financial Report in late February or early March
- Will continue to identify solutions to mitigate potential impact to General Fund reserves

# Other Budget Issues

- Volunteers In Policing (VIP) Program
  - Police Department developed recommendation for enhanced volunteer program
  - Cost of enhanced volunteer program is \$141k first year and \$136k ongoing
  - Recommendation: evaluate as part of operational review of Police Department
- Park Ranger Volunteer Program
  - Currently operating the “Ranger Lite” program with limited staffing
  - Mid year review to evaluate if additional funding is available
  - Cost of volunteer program is \$75k first year and \$35k ongoing



# Council Workshop

## Baseline Budget Fiscal Year 2012-13



# Fiscal Year 2012-13 Baseline Budget

- Summary of Revenue Changes from FY2011-12 budget:
  - Modest increases in sales tax and franchise fee revenues (\$1.2 M)
  - State takeaway of MVLF revenues (\$0.7M)
  - Reduction of Program Revenues (\$1.0M)
  - Eliminated use of Economic Contingency Reserves (\$3.0M)

# Fiscal Year 2012-13 Baseline Budget

- Summary of Expenditure Changes from FY2011-12 budget:
  - Final payment of Pension Obligation Bonds (\$2.8M) made in FY12
  - MOU salary Increases for Public Safety (\$1.4M)
  - Health Care Cost Increase ( \$1.0M)
  - No salary savings assumed in baseline (\$0.3M)
  - Reinstated supplies & services reductions (\$0.4M)
  - Increased General Fund support of Police Grant positions (Sworn Only) (\$0.2M)
  - Reduced transfers out to other funds (\$1.0M)
  - Reduced elections budget and unemployment insurance (\$1.1M)



# Fiscal Year 2012-13 Baseline Budget

- Additional adjustments will be made after 2nd quarter review and after departments review line item detail
- Impacts of RDA currently being evaluated
- Currently Projecting \$3.0 million deficit for Fiscal Year 2012-13
- Developing budget balancing plan



# Council Workshop

## Five-Year Financial Forecast





# Five-Year Financial Forecast

## January 2012 Five Year Financial Forecast (in millions)

	FY 12-13	FY 13-14	FY 14-15	FY 15-16	FY 16-17
Description	Forecast	Forecast	Forecast	Forecast	Forecast
April 2011 Forecast	\$ (0.8)	\$ (2.2)	\$ (1.6)	\$ (1.1)	
Updated Forecast:					
Revenues	\$ 120.6	\$ 122.3	\$ 124.1	\$ 126.0	\$ 128.4
Economic Contingency Reserves	\$ -	\$ -	\$ -	\$ -	\$ -
Expenditures/Fund Balance Adj.	\$ 123.6	\$ 126.0	\$ 127.2	\$ 129.4	\$ 132.1
Updated Surplus/(Deficit)	\$ (3.0)	\$ (3.6)	\$ (3.2)	\$ (3.3)	\$ (3.7)

### Notes:

1. April 2011 Forecast was based on the FY 2011-12 Proposed budget and did not include fiscal year 2016-17.
2. Forecast does not reflect impacts from RDA; Impacts of RDA currently being analyzed.



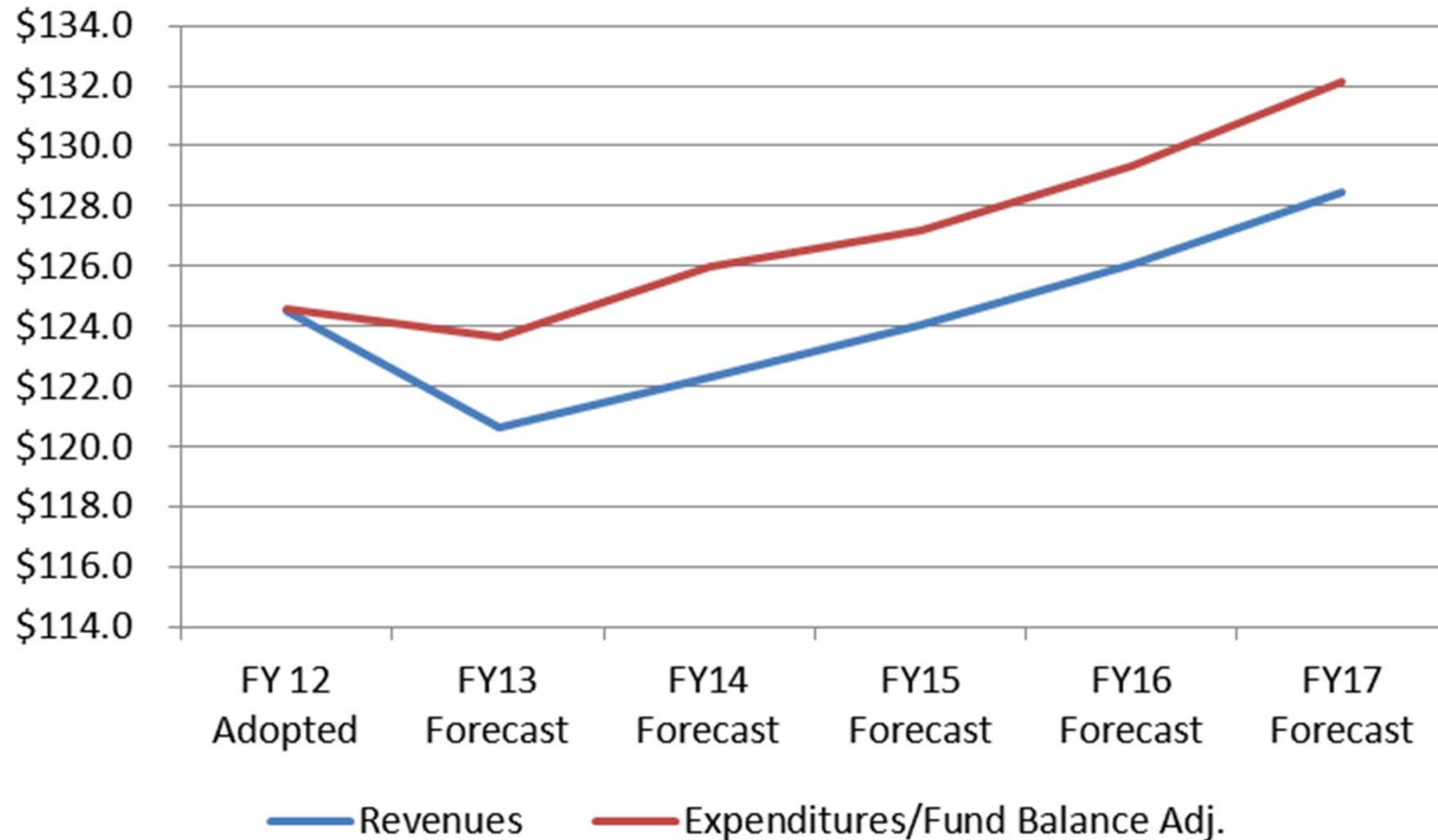
# Forecast Summary

- Major factors contributing to increased projected deficit:
  - State takeaways resulted in reduced motor vehicle license fee revenues (\$0.7M)
  - Reduced program revenues (\$1.0M)
  - Did not fully implement budget balancing plan
    - Library hours of operation partially restored (\$0.6M)
    - Added 2 Police Agents to baseline (previously not assumed) (\$0.3)
    - Graffiti abatement program partially restored and restored full-time Webmaster (\$0.1M)

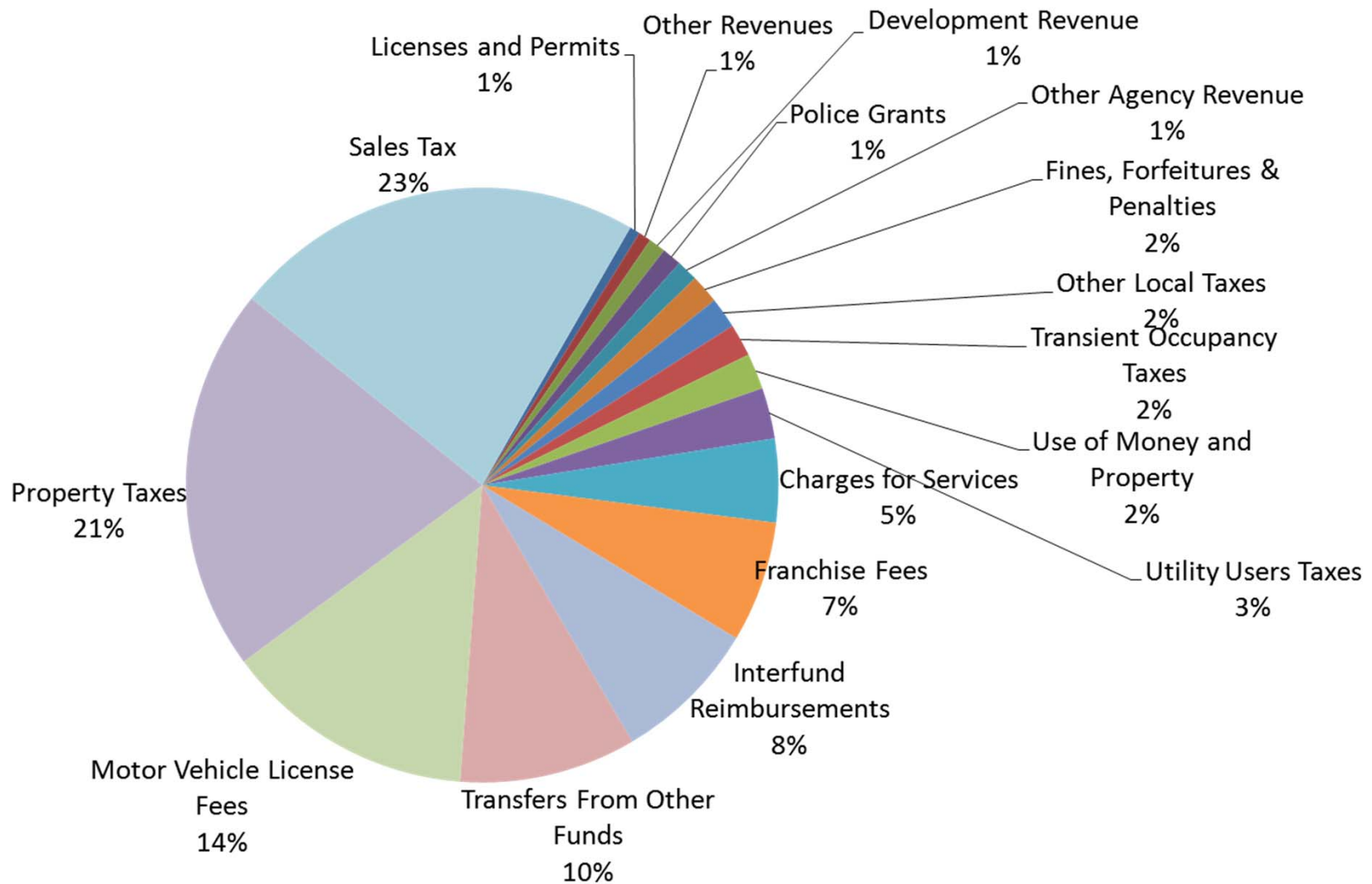


# Five-Year Financial Forecast

Millions



# FY 2012-13 Revenues





# Five-Year Financial Forecast (Revenue Assumptions)

## Summary of General Fund Major Revenues Percent Change Compared to Prior Year

Description	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Property Tax	0.0%	1.5%	1.5%	2.0%	3.3%
Sales Tax	3.0%	3.0%	3.0%	3.0%	3.0%
Franchise Fees	5.4%	2.0%	2.0%	2.0%	2.0%
Utility Users Tax	2.7%	1.0%	1.0%	1.0%	1.0%
Transient Occupancy Tax	2.0%	2.0%	2.0%	2.0%	2.0%
Motor Vehicle Lic. Fee	-3.9%	1.5%	1.5%	2.0%	2.0%



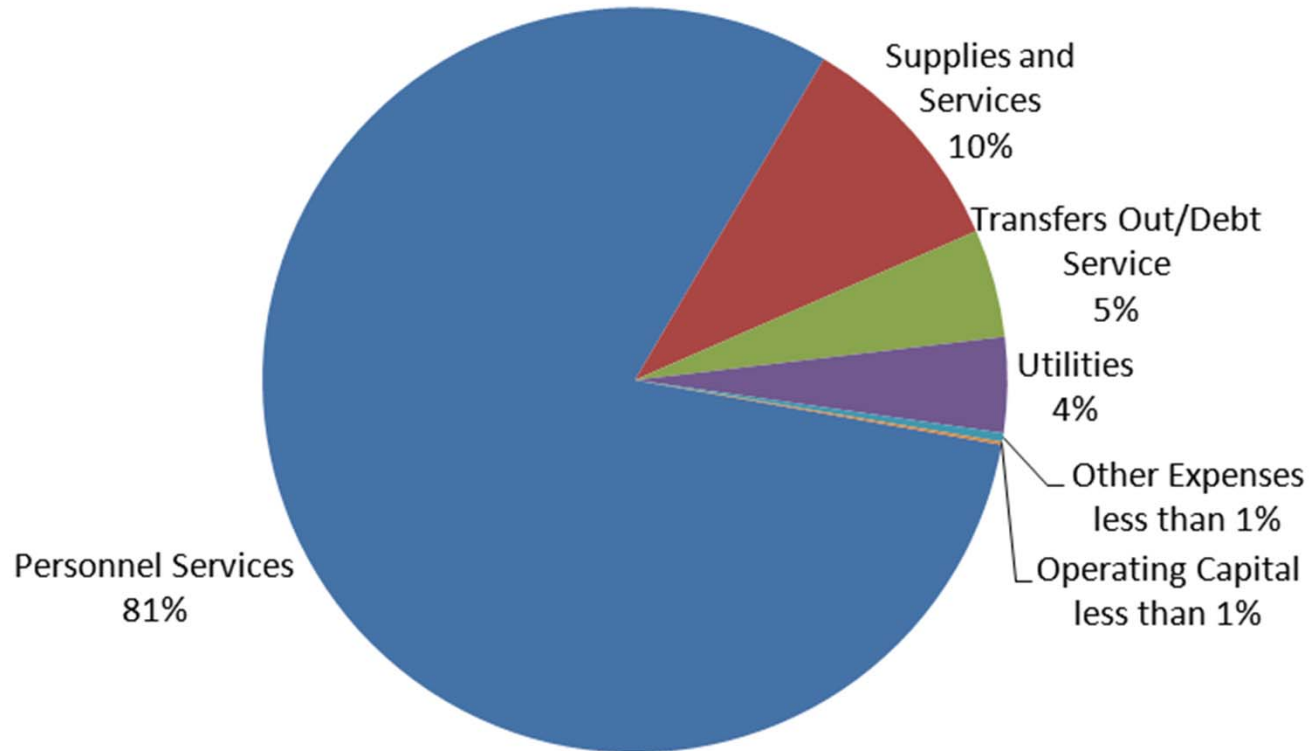
# Five-Year Financial Forecast

- Forecast Years reflect the following:
  - Sales Tax revenues will increase modestly (3% annually)
  - Base assessed value will remain flat through fiscal 2014-15 due to the continued fall out from the housing crisis, then increase in fiscal year 2015-16 (2%) and 2016-17 (3%)
  - State takeaways of motor vehicle license fee revenues
  - Redevelopment Agency continues to fund loan repayments to the General Fund at an average of \$1.5 million per year
  - Franchise Fee revenues no longer assume any funds from the operation of the South Bay Power Plant
  - No UUT wireless telecommunications revenues



# Five-Year Financial Forecast

## FY13 Baseline Expenditures





# Five-Year Financial Forecast (Expenditure Assumptions)

## Summary of General Fund Expenditure Categories Percent Change Compared to Prior Year

Description	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Personnel Services	3.6%	1.5%	1.1%	1.7%	2.2%
Supplies and Services	-4.3%	2.4%	1.8%	1.8%	1.8%
Utilities	0.8%	3.0%	3.0%	3.0%	3.0%
Other Expenses	4.5%	0.0%	0.0%	0.0%	0.0%
Capital	-55.8%	0.0%	0.0%	0.0%	0.0%
Transfers Out	-38.5%	6.9%	-4.2%	0.6%	0.6%
CIP	-100.0%	0.0%	0.0%	0.0%	0.0%
Total	-0.8%	1.9%	1.0%	1.7%	2.1%





# Five-Year Financial Forecast

- Forecast Years reflect the following:
  - Salaries and other objects reflect negotiated cost of living adjustments based on current contracts (Public Safety Only)
  - No additional cost of living adjustments included in the forecast beyond current contracts
  - Pension costs are adjusted using estimated contribution rates provided by CalPERS (2.93% investment returns for fiscal years 2015 to 2017)
  - Flex/Insurance costs increased based on estimated health care insurance premium increases
  - No General Fund used for capital improvement projects



# Five-Year Financial Forecast

## January 2012 Five Year Financial Forecast (in millions)

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# Council Workshop

## Fiscal Recovery and Progress Plan



# Fiscal Recovery and Progress Plan

- Chula Vista Fiscal Health Plan (Council Supported January 2009)– Implemented four pronged approach to stabilize City finances
- Fiscal Recovery and Progress Plan – incorporates the Fiscal Health Plan and highlights major issues that impact City's financial stability
- Long Term Financial Plan – Provide additional analysis and long-term strategies to address major issues. The goal is to achieve financial resiliency in order to secure services to our community



# Fiscal Recovery and Progress Plan

- Fiscal Recovery and Progress Plan
  - Identifies key issues that impact City's financial stability
  - Highlights steps Council has taken to stabilize City finances through severe financial crisis and steps taken toward financial resiliency
  - Implements Continuous Improvement Visual Controls
  - Serves as a communication tool for the City Council, Community, Rating Agencies, Investors and City Staff
  - Includes Next Steps in addressing various issues or identifies the need for additional analysis



# Fiscal Recovery and Progress Plan

- Financial Resiliency – Most favorable outcome, long-term strategies have been implemented. Control mechanisms, budget techniques, and early warning systems are in place to assist in managing through economic changes.
- Financial Sustainability – Structural balance has been achieved but institutional practices have not been adopted necessary to withstand future shocks.
- Relapse – Can occur if sufficient shock occurs – new economic downturn, and/or unsustainable recovery strategies.



# Status Summary of Fiscal Recovery and Progress Plan

## Budget and Fiscal Reforms:

	Priority-Driven Budget Process and Strategic Goals
	Fiscal Policies
	General Fund Reserves
	Fiscal Impact Analysis

## Expenditures:

	Employee Pension Reform
	CA Public Employees Retirement System Unfunded Pension Liability
	OPEB – Other Post-Employment Benefits
	Debt Service
	Infrastructure



# Status Summary of Fiscal Recovery and Progress Plan

## Expenditures (continued):

	Roadway Management System
	Wastewater Management System
	Drainage Management System
	Parks Management System
	Building Management System
	Open Space Management System
	Miscellaneous Management System
	Compensation Plan
	Training
	Operational Reviews
	Increasing Operational Efficiency





# Status Summary of Fiscal Recovery and Progress Plan

## Increase/Protect Revenues:

	Master Fee Schedule Review and Update
	Cost Recovery Policy
	Revenue Enhancements

## Economic Development:

	Business to Business
	Bayfront Development
	Millenia Project
	University and Regional Technology Park



# Status Summary of Fiscal Recovery and Progress Plan

## Other Funds:

	Technology Replacement Fund
	Workers Compensation Fund
	Public Liability Expense Fund
	Equipment Replacement Fund



# Fiscal Recovery and Progress Plan

Green

## OPEB - Other Post-Employment Benefits

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Beginning in fiscal year 2007-08, in accordance with Governmental Accounting Standards Board Pronouncement (GASB) 45, governmental entities were required to identify and disclose the liability and funding status of other post-employment benefits (OPEBs) similar to pension plans. This is a significant change in accounting, reporting and disclosure for OPEBs, which had been accounted for on a pay-as-you-go basis. The most common types of post-employment benefits include health care insurance, life insurance, long-term care and dental insurance for retirees.

The City of Chula Vista does not directly pay for post-employment health benefits but does subsidize the health care insurance premiums paid by retirees who opt to continue to participate in the City's retiree health care program. The costs associated with the retirees are pooled with the active members; this pooling creates an artificially low rate for retirees. GASB believes that retirees who are allowed to pay the same health care benefit rate as active employees are being subsidized and the indirect cost of this "implicit subsidy" needs to be recognized as an OPEB liability by the governmental entity. In effect, the City is paying a higher insurance premium due to the subsidized rates for retirees and accruing an unfunded liability for subsidized health benefits being earned by current employees and existing retirees.



# Fiscal Recovery and Progress Plan

Yellow

## Equipment Replacement Fund

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On February 12, 1985, the City Council authorized the establishment of the Equipment Replacement Fund for the purpose of securing funding to replace vehicles in accordance with the Equipment Replacement policy. This fund provided the City the ability to replace vehicles without impacting service levels through the annual General Fund allocation. The replacement cost of vehicles is based on the anticipated economic and useful life for the class of vehicle, the salvage value of the vehicle, and inflation. The following table summarizes the equipment and vehicles assigned to each department and/or fund.



# Fiscal Recovery and Progress Plan

## Red

## Infrastructure

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Throughout the United States, aging and deteriorating public infrastructure is in desperate need of repair and replacement. Most of the current infrastructure in the United States, above and below ground, was designed and constructed more than 50 years ago. As Chula Vista celebrates its 100th year, it too struggles with aging infrastructure. For example, the City has gone through significant growth as a result of new planned communities over the past 10 years. Within the last decade, these new developments have added 73 miles of public streets and associated elements such as drainage, sidewalks, traffic signals and signage in the newly dedicated Rights of Way. This increase of approximately 21 percent brings the total to 430 miles of roadways as of 2011. Now the responsibility of the City of Chula Vista, these public assets are maintained with less staff and funding than were available in 2001. The continued addition of public roadways, parks, libraries, recreation centers, fire and police stations without additional resources for maintenance has exacerbated the City's inability to preserve its infrastructure and facilities.



# Steps Toward Financial Resiliency

- City has implemented difficult budget reductions to align expenditures to decreasing revenues
- Reduced Executive and Management positions
- Creation of second tier retirement benefits for new hires
- Current employees agreed to pay 100% of their share of pension costs
- Employee groups agreed to eliminate or defer scheduled cost of living increases
- Elimination of retiree health care subsidy for new hires



# Steps Toward Financial Resiliency

- General Fund reserves have increased slightly over the past three years, moving above 8%
- Maintained a favorable bond rating during severe economic downturn
- Issued final payment related to 1996 Pension Obligation Bonds
- Repaired all corrugated metal pipe identified as needing immediate attention in 2005 Baseline Condition Study



# Steps Toward Financial Resiliency

- The Result:
  - Although there is a projected deficit of approximately 2.4% for fiscal year 2012-13, this deficit is not nearly as severe as in the recent past





# Council Direction

Continue to operate as efficiently and effectively as possible



# Improving Operational Efficiency

- Implementation of Continuous Improvement Program:
  - Continuing CI and 5S training being rolled out citywide
  - Follow-up on previous Kaizen events
  - Establishing "Virtual Warehouse"
  - Training 50 employees at Goodrich in February
  - Exploring mentor program with Goodrich
  - Participating in ICMA performance metrics survey
- Implementing Customer Service Improvement program
- Continuing departmental peer review
- Police Department staffing and efficiency analysis



# Council Direction

Maintain and increase existing revenues  
and  
Raise new revenues



# Implementation

- Revenue workshops and community outreach
- Three pronged approach to economic development strategy:
  - Revenue increases (capture local sales tax, business to business)
  - Determine and recruit new industries to Chula Vista
  - Major progress on key projects including Bayfront, Millenia, and University and research park



# Summary

- Through Council leadership and collaboration among all departments City has persevered through extreme financial challenges
- Work toward mitigating current year deficit
- Update fiscal year 2012-13 based upon departmental review and forecast as needed
- Develop budget balancing plan for fiscal year 2012-13
- And continue our path toward long-term financial resiliency

# Next Steps

January	<ul style="list-style-type: none"> <li>Review Fiscal Recovery and Progress Plan; this step will be incorporated into annual budget development process</li> </ul>
January to February	<ul style="list-style-type: none"> <li>Develop Mid-Year Fiscal Year 2011-12 Budget Review (Second Quarter Financial Projections)</li> <li>Departments review Fiscal Year 2012-13 Baseline Budget</li> </ul>
February	<ul style="list-style-type: none"> <li>Revenue Workshops (Community Outreach)</li> <li>Present Mid-Year Fiscal Year 2011-12 Budget Review (Second Quarter Financial Projections) to City Council</li> <li>Update Fiscal Year 2012-13 Baseline Budget based on updated current year projections and departmental review</li> </ul>
March	<ul style="list-style-type: none"> <li>Report on Revenue Workshops to Council</li> <li>Develop Budget Balancing Plan</li> </ul>
April	<ul style="list-style-type: none"> <li>Present Draft City Manager Proposed Budget to Council</li> <li>Council feedback on Draft budget</li> </ul>
May	<ul style="list-style-type: none"> <li>Present Fiscal Year 2012-13 All Funds Budget and CIP Overview</li> <li>City Manager Proposed Budget document submitted to Council</li> </ul>
June	<ul style="list-style-type: none"> <li>Public Hearing and Recommend Council adoption of Proposed FY 2012-13 Budget (All Funds)</li> </ul>